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Section for External Relations
on
Relations between the European Community
and the United States

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PREFACE

The Section for External Relations prepared an Information Report in 1982 on relations between the European Community and the United States⁽¹⁾ This report is still highly topical. However, several passages have to be adapted or amplified to take account of recent events.

The present document is built on the conviction that the points of agreement between the two partners far outweigh their differences. An introductory chapter is devoted to the things which the United States and the European Community have in common. Three chapters take a look at areas where there are differences and at the dossiers which are pending. The final chapter contains a number of recommendations for overcoming existing and potential sources of conflict.

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(1) CES 544/82 fin

I. INTRODUCTION

1.1. The relations between the United States and the EEC are of a highly political nature, founded upon a dual solidarity:

- western solidarity, which forms the backdrop to these relations, and affects the security of Europe;
- solidarity arising from common interests on both sides of the Atlantic:
 - . a high and comparable level of social progress;
 - . a social market economy based, as a general rule, on free enterprise and open international trade;
 - . intensive trade, due to the size of the two partners' markets and a certain complementarity of the economies;
 - . a fundamental commitment to democracy and respect for human rights (the fundamental tenets of the EEC).

Solidarity in the western world has existed for more than two centuries and is a guarantee of the future of the two peoples.

1.2. The trade problems which beset EEC/US relations must be put in perspective, without under-rating their importance. They occur both in American and European markets, and in those of third countries. They concern major industrial sectors and impinge on the underlying principles of Community and US farming policies. Although most trade operates in accordance with the GATT rules, which both parties have endorsed, in practice the US still disputes certain of the agreements reached at previous multilateral negotiations.

1.3. At a time when world trade is threatened by protectionism, the two trade partners cannot evade the responsibility inherent in the scale of their mutual trade and their international economic standing. The attitude of the present Congress gives cause for concern in the light of this.

The United States and the Community have been hit simultaneously and to a comparable degree by the economic recession. It would be greatly in their interests to join forces and pull themselves out of the slump.

The interdependence of their economies should encourage both sides to seek the kind of collaboration that is to be expected between partners.

II. DISPUTES AND DISAGREEMENTS BETWEEN THE TWO PARTNERS

2.1. Some disputes have been sparked off by differing policy approaches, others by conflicts of interest in one sector or another (see Chapter III).

2.2. The United States can draw on a vast and constantly up-dated panoply of legal and other provisions for the purpose of taking effective action to stem the tide of certain imports and mitigate the effects of others. The Information Report on relations between the European Community and the United States outlines the most significant of these provisions.

In contrast, the Community still lacks a sufficiently effective common trade policy. This is mainly due to the effect of industrial economic and monetary policies (which are, by and large, controlled by the Member States) on trade. Nonetheless, Community policy makers are showing a growing awareness of the need for a united front to US demands and certain US barriers. With this in mind, the Section for External Relations is anxious that Community machinery be set up to safeguard and promote the Member States' trade interests.

2.3. The United States has an advantage over the Community in that its institutional system makes decision-taking more rapid and effective - decisions are sometimes taken in response to pressure from specific interest groups - even if this does not always lead to a consistent trade policy. The Community often has to try and strike a delicate balance between Member States whose national interests have to be weighed up before a common stand can be achieved. Thus, it cannot always play a role commensurate with its economic and commercial strength.

2.4. Despite large-scale trade, frequent contacts and real common interests, policy makers on both sides of the Atlantic sometimes take a different attitude to certain issues. A tendency to underestimate the others' problems while over-dramatizing their own seems to be prevalent on both sides.

2.5. All in all, trade relations with the United States are difficult for the Community. Many sectors of the European economy are under constant threat. The Section would therefore recommend that the various Community bodies remain alert to any possible developments.

III. BILATERAL ISSUES

3.1. Agriculture

3.1.1. Despite its substantial surplus on its food trade with the Community, for many years the United States has been critical of the Common Agricultural Policy (CAP), which came under attack at every single round of GATT talks. On each occasion, a comparatively peaceful solution was reached only by virtue of concessions on the part of the Community⁽¹⁾. Initially, the US Administration strove to ensure that its agricultural products had continued access to the markets of the Community which, in principle, increasingly favours its own

(1) E.g.: fats, oils and soya bound at zero duty.

farmers. The refunds paid on exports of Community food surpluses to non-Community countries are the most recent source of attacks, on the grounds that these refunds have allowed the Community to seize an unfair share of the world market. This argument would not seem to be borne out by statistics since US sales to non-Community countries have outpaced Community exports to these countries in recent years.

3.1.2. US exports have also become more expensive because of the relative rise in the value of the dollar. Naturally this is a source of anxiety to the United States which like any other industrial country, has its farming and farm incomes problems. Statistics show that although in aggregate the Community spends more than the United States on its agriculture, it spends less per capita of the farm labour force.

3.1.3. The United States' coordinated infrastructure, level of modernization and crop rotation system give it the edge over the Community's variegated agriculture⁽¹⁾ The American agricultural system is also heavily geared towards products for export (cereals, soya). The foundations of the CAP are not negotiable with non-EEC countries because the CAP offers income guarantees to a substantial part of the EEC population. This was borne out by the united stand adopted by the Ten during the GATT talks held in Geneva at the end of November, when the United States tried yet again to challenge the CAP.

(1) This is particularly true of cereals, whether for bread-making or for animal feed.

3.1.4. The United States is, in fact, concerned that the Community might introduce a levy on vegetable oils (which are zero-rated under GATT) in order to safeguard the interests of EEC butter and olive oil producers.

3.1.5. Community refunds on beef and veal have stabilized world prices to a certain extent. As the United States is an importer of beef it is not in competition with the Community, and therefore indirectly benefits from these EEC measures.

EEC/US relations are more complex where sugar is concerned. There has been a dispute in this sector for a number of years. In 1981, the Community issued a new Regulation making European producers responsible for financing exports. The United States retaliated in 1982 by re-introducing import quotas, which effectively barred Community imports. The matter has been referred to GATT.

3.1.6. The US has recently started to over-produce dairy products which are now in competition with European produce on third markets. Nevertheless, its interests coincide with those of the EEC: either exports should cost the taxpayer less, or output should be cut.

3.1.7. US cereal exports are five times those of the Community and are cheaper, in real terms, to produce. There is now a major US plan to reduce cereal acreage (under certain conditions,

farmers will be given so many bushels per unplanted acre). This has been successful up to a point. The Commission aims to cut back cereal production in the Community by reducing real prices.

3.1.8. Although American farmers (like their European counterparts) benefit from federal and state incentives, agricultural revenue has plummeted in the past ten years.

3.1.9. In conclusion, it is in the interests of the United States and the Community, as the world's main agricultural exporters, to seek to establish more peaceful conditions for international trade. This could be done by concluding international agreements for individual products.

US/EEC cooperation would naturally be of world-wide benefit. It should assist developing countries. Discussions to this end could be held under the GATT Committee on agricultural products.

3.2. Steel

3.2.1. The world steel sector is a sensitive one, owing on the one hand to the drop in demand, and on the other to the emergence of new producer countries. The difficulties in EEC-USA trading relations, which are only one aspect of this bad overall situation, are also due to the United States' sluggishness in adapting, and making adequate investments, in recent years. There

have often been clashes between the two partners. The plethora of anti-dumping and anti-subsidy suits brought by US producers against Community imports led to a temporary truce in October 1982. The Community undertook to restrict its exports of ten categories of goods to the United States up to 31 December 1985; in return, US producers agreed not to bring any further suits concerning these products during the intervening period.

3.2.2. It is worth noting that:

- the Community considers the above suits to be incompatible with the GATT Code of Conduct signed at the close of the Tokyo Round; this is particularly true of the US definition of "damage". Similarly, there is disagreement on the meaning of the term "subsidy".

- the Community steel industry too is in a grave crises.

3.2.3. The voluntary restraint solution accepted by the Community may have been the "least bad" compromise in the circumstances. The European steel industry has reluctantly accepted "voluntary" restrictions as the only means of penetrating the barrier put up by the United States and maintaining a steady, albeit reduced, flow of European steel

exports to the US. In future, however, the Community will have to display firmness and unity in this matter since US producers make no secret of their ambition to force the Community to make other concessions on special steel exports to the United States. The Commission is therefore holding a series of preliminary talks with the United States authorities.

3.3. Cars

3.3.1. Agreements between American manufacturers and the Japanese could indirectly disadvantage European manufacturers on their own and other markets⁽¹⁾.

3.3.2. There is a likelihood of more intense competition in the future from medium-sized American cars designed for European tastes. Recent years have seen heavy investment by American investors in this sector in the United States, Europe and the rest of the world.

3.3.3. On 15 December 1982 the House of Representatives adopted a bill requiring that foreign cars sold in the United States should incorporate a minimum percentage of American components. This particular Bill lapsed because a new Congress was elected; another, identical, draft was however tabled on 2 February 1983. These provisions, scheduled to take effect in 1984, would set a 3.3% minimum limit per consignment of 100,000 cars, rising to 10% per 100,000 cars in 1986, with a fixed ceiling of 90%. If they became law, these provisions would contravene Articles III and XI of the GATT.

(1) On this point see the Committee's Opinion on Economic and Commercial Relations between the European Community and Japan (OJ No. C 230 of 10 September 1981)

Vigilance is needed, however, since although protectionism may so far be little more than a speck on the horizon, it could become a real danger if other sectors of the US economy were too severely hit by foreign competition. Should this occur, it would be difficult to prevent protectionist measures being taken in the EEC and elsewhere, which would inevitably disrupt the world economy.

3.4. Advanced technology

3.4.1. Progress in advanced technology (particularly sectors such as microelectronics, data processing, telecommunications, fibre optics and biotechnological methods) has been more rapid in the United States (and Japan) than in the EEC. This is partly due to aid programmes, either direct (American military programmes) or indirect (MITI in Japan). Although the United States no longer lead in all fields of advanced technology, they are determined at all costs to retain their hegemony in certain fields (e.g. aeronautics).

3.4.2. Disputes might be engendered by European determination to develop these activities independently. Already, customs duties are often higher in the EEC than in the United States and Japan (for example, 17% as opposed to 4.2% for semi-conductors). The Community's industrial policy, like that of the individual Member States, aims to promote growth in advanced technology sectors - if necessary by means of incentives.

3.4.3. The Section urges that efforts to achieve this aim be stepped up, even if it exacerbates tension between the United States and Europe. Nevertheless the Section would appeal to the two partners to join forces in Research and Development - but on an equal footing!

3.5. Petrochemicals and synthetic fibres

The United States continues to have a two-tier price system for natural gas, which favours petrochemicals and the production of chemical fibres using gas-based ethylene. This results in serious distortions of competition for Community producers⁽¹⁾.

Although energy prices are in the process of falling at the moment, the problem still exists maybe exacerbated by a further fall in the dollar.

The situation was even more alarming prior to January 1981 because regulated prices, which were lower than international market prices, applied to domestically-produced crude oil in addition to natural gas.

The two-tier price system (practised in various other countries which produce raw materials) is a way of subsidizing domestic industries and as such contravenes the GATT regulations by discriminating against foreign competition.

(1) See the Information Report compiled by the Section for External Relations on EEC - US Relations (CES 544/82 fin of 28 September 1982

The EEC Commission, which has in the past had talks with the American Administration on the "de-regulation" of the price of oil, should be vigilant in this case, as it also involves important principles.

American exports of petrochemicals and synthetic fibres are known forms of dumping which the Community has countered in accordance with the GATT regulations, by anti-dumping and anti-subsidy measures with particular regard to the following products:

- textured polyester yarns
- non-textured polyester yarns
- textured polyester yarn fabrics
- polyacrylic textile fibres and continuous filament tow.

3.6. Textiles and clothing

3.6.1. As the world arrangement on textiles (MFA) is not an instrument of trade policy, the Community cannot employ counter dumping and subsidized imports from industrialized countries. The Community must therefore use its own anti-dumping and anti-subsidy laws.

3.6.2. As regards the continuing discrepancy between the external tariffs of the USA and the Community in the textiles and clothing sector, the Community should make use of every opportunity to urge the USA to lower its tariffs. Although

Greece, on its accession, adopted the lower Community external tariff⁽¹⁾, this unfortunately did not lead to concessions by the USA (and Japan). The USA (and Japan) were not prepared to grant tariff reductions, so that in the end the Community retaliated by binding several of its own tariff rates in GATT at a higher level. The Community, must, however, uphold its rights in view of the forthcoming accession of Spain and Portugal, where the volume of goods involved will certainly be larger, and demand tariff reductions from the USA in the textiles and clothing sector. Failing this, the Community should provide for compensatory measures.

3.7. Shoes

In July 1981, the United States scrapped the OMAs (voluntary restraint) which had been applied to imports from Taiwan and South Korea. That means that American industry cannot ask the ITC (International Trade Commission) to take new measures before July 1983.

In 1982, the strengthening of the dollar led to an upsurge in imports (+28%). European exports admittedly increased by 15%, but South Korea and Taiwan were the major export beneficiaries (+106% and +54% respectively).

(1) With respect to a number of textiles, United States tariff protection is far higher than that in the Community.

American industry reacted in two ways :

- by seeking to increase administrative barriers to imports;
- by lodging a complaint under Section 301 of the Trade Act primarily against Taiwan, South Korea, Japan and Brazil, but also against the European Community and three of its Member States in particular (Italy, France and the United Kingdom). The Administration rejected the complaint against the Community, whilst proceeding with its investigations into the accusations of deflection of trade levelled by American industry.

As a result, the Community faces the double risk of a cut in its exports to the United States and in influx of Taiwanese and S. Korean imports originally destined for the United States.

3.8. Services

3.8.1. The United States has sought the liberalization of international trade in services and international investments under the GATT. The GATT Ministerial Conference of November 1982 decided to continue its research into this matter with a view to reaching a decision in 1984.

3.8.2. The Community's economic and social interest groups are in favour of gradual liberalization in principle, if all parties, including the LDCs, subscribe to it. Steps should anyway be taken to ensure that various US states and regional authorities under

the federal administration are bound by the GATT. At present, the federal states, as signatories to the GATT, are formally bound to their Level (Level II) only, i.e. they have undertaken to respect the code to the best of their ability.

3.8.3. As far as shipping is concerned, it should be remembered that the United Nations Convention on a Code of Conduct for Liner Conferences enters into force in October 1983. It is important that as many countries as possible adhere to this international legal regime.

Yet it appears that the USA continues to regard the UN Code as a protectionist regime which justifies, on its side, following a protectionist path and entering into bilateral cargo-sharing arrangements with any country willing to participate.

Talks between the USA and other OECD countries, including EEC countries, are continuing; it is hoped that an understanding with the USA can be reached to the effect that there should be no discrimination as between the parties' shipping lines in each other's trades.

3.9. Investments

3.9.1. Although American investment in the Community, and in the rest of the world, has decreased in response to the international economic recession, the Section feels that investment is still a vital aspect of United States/Community relations. The current trading problems between the two partners should not be allowed to inhibit bilateral investments.

3.9.2. As is the case with trade problems, misunderstandings or lack of information tend to discourage the United States from embarking on fresh investments in the Community. Community policies likely to have a bearing on investment should be drafted so as to bring home the reality of the situation to potential investors.

3.9.3. American investment has already contributed to the development of certain Community regions, and a favourable climate should be created to encourage this pattern.

IV. MULTILATERAL ISSUES

4.1. Trade reciprocity

In the GATT ministerial declaration (see above) the United States was among those who reiterated the need to maintain free trading relations on a multilateral basis. But the trend towards reciprocity continues to surface in Congress, which is the highest authority in foreign trade matters in the United States. The United States seeks to obtain greater reciprocity from its trading partners on a bilateral basis, in the light of a country-by-country examination of obstacles to exports and American overseas investments.

The Section urges the Commission to scrutinize the documents currently before Congress with particular care, and to draw the appropriate conclusions.

4.2. Domestic International Sales Corporations (DISC)

Since 1972, American law has provided tax relief (in particular exemption from company tax) for profits made on exports from the United States. The relevant law is known as "DISC" (Domestic International Sales Corporations).

The Commission believes this to be a form of export subsidy, an opinion which is shared by Canada and other contracting parties to the GATT. In a GATT report published in

December 1981, the impact of DISC legislation was found, in some instances, to be incompatible with US commitments under Article XVI-4 of the Agreement. In 1982, the Community submitted complaints under the GATT and requested authorization to take retaliatory measures. As a result of constant Community pressure, the US Government has drafted a bill which replaces the DISC arrangement and would be consistent with GATT provisions.

4.3. Unitary taxation

Finally, a number of US states tax companies on profits made outside as well as inside the USA. This amounts to double taxation, and is inconsistent both with the OECD recommendations on this point and with current practice.

4.4. Relations with Japan⁽¹⁾

For strategic reasons, above all, the US is in a strong position vis-à-vis Japan and has much greater "pull" than Europe. Nevertheless, both the US and the EEC are adopting a similar attitude towards Japan in seeking bilateral solutions based on voluntary restraint. The piecemeal approach to the issues involved and the palliatives which have been adopted give an impression of inconsistency. The measures taken to date should be looked on as stop-gap arrangements, pending genuine solutions.

(1) On this point see the Committee's Opinion on Economic and Commercial Relations between the European Community and Japan (OJ No. C 230 of 10 September 1981).

4.5. Trade, financial and industrial relations with the LDCs

4.5.1. To the extent that one can talk about a definite policy as such, the US appears to be changing its thinking on development cooperation:

- official development aid is giving way to a trade approach ("trade not aid")
- there is a shift towards bilateral relations with the LDCs,
- an attempt is being made to play down the work of the big international organizations such as the World Bank group;
- a distinction is now made between the stage of development reached by the individual LDCs.

4.5.2. For its part, the Community maintains stable and contractual "multilateral" relations with the ACP countries, which it is seeking to expand. It makes no hard and fast distinction between rich and poor LDCs. It is also conscious that a substantial injection of funds will be needed for many years to come before the LDC economies develop the production capacity and trade necessary for autonomy.

4.6. East-West trade

4.6.1. Trade with the countries of Eastern Europe (including the USSR) is clearly more important (in value terms) for the Community than for the USA. That is why in pursuing this trade the Community maintains a balance between its political and its economic interests, whereas for the USA political considerations definitely predominate.

4.6.2. Thus in the case of the Siberian gas pipeline, the USA adopted measures inspired largely if not exclusively by political considerations and deliberately disregarded European interests. At the same time, moreover, the USA lifted its embargo on grain supplies to the USSR.

The USA had views concerning the extraterritorial applicability of its legislation that were not acceptable to the Community. The extremeness of the USA position was highlighted all the more clearly by the fact that the embargo imposed on several Member States by the USA was retroactive in certain respects and on that score, too, was unacceptable to the Community. The embargo measures were lifted in November 1982 subsequent to two formal complaints (July and August 1982) by the Community to the US Government.

The impending renewal, in September 1983, of the 1979 Export Administrative Act (the legal basis for applying the embargo) is thus causing deep concern on political, economic and social circles in the Community. It involves two major issues:

- the extra-territorial application of US legislation, and
- the retroactive application of such legislation.

4.6.3. The Community's trade relations with the countries of Eastern Europe should be developed within the framework of the common commercial policy. These trade relations could, however, be more homogeneous:

- if the Community were to give more detailed thought to certain types of transaction - agricultural exports, technology transfers, etc.;
- if each East European country were to accept the Commission's longstanding proposal regarding the negotiation of bilateral agreements (as Roumania has done).

4.6.4. As regards East-West relations in general, the Section regrets that the work on harmonization and coordination in this sphere is being carried out in too large a number of international bodies (for example, OECD for export credits, COCOM for strategic goods, GATT for general trade rules, etc.).

4.7. Monetary matters

4.7.1. There is something of a dilemma as far as US economic policy is concerned. It is in the interests of not only the USA but also the world economy that the fight against inflation should be continued in the USA. However, the policy pursued by

the Federal Reserve, based essentially on monetary policy and, in particular, on the control of the money supply, led to the drastic increase in interest rates. The adverse consequences of this increase, especially on employment, have by no means been confined to the USA. The measures taken by the Federal Reserve have destabilized the exchange rates between the major currencies and thereby slowed down economic activity and pushed up unemployment. The entire world economy has been affected by this.

4.7.2. However, the monetary consequences have been much more far-reaching. The dollar is still indispensable as an international trading currency. About three-quarters of all international bank loans are in dollars. This means that US economic and monetary policy has a responsibility which extends far beyond the country's frontiers. This is made particularly clear by the repercussions on the debt servicing of all countries with debts in dollars and the ensuing consequences for the international finance system.

4.7.3. These repercussions are drastic in the case of the LDCs but the Community has not emerged unscathed. A more fully developed EMS, enjoying the wholehearted participation of all Member States, would equip the Community for the counterbalancing role it is at present unable to play.

4.7.4. The strength of the dollar and high US interest rates have also affected relations between the Community and the USA in the fields of monetary and economic policy.

4.7.5. Since a lot of the Community's imports are paid for in dollars, a strong dollar puts a burden on the Community's balance of payments, though it also makes the Community more competitive on dollar markets. On the other hand, the USA has more difficulty in exporting to the Community when the dollar is strong.

4.7.6. The high interest rates and in some cases large differences in interest rates also have a considerable impact on competition on export markets. In 1980 alone roughly 5,500 million dollars were spent on interest rate subsidies in the OECD countries. The negotiations on an extension of the OECD consensus on export credit rates in 1981 and 1982 have by no means deprived countries with a rate above the newly agreed minimum rates of room for manoeuvre regarding interest rate subsidies.

4.7.7. In its battle against inflation, the United States has placed greater emphasis on monetary policies, such as tight control of money supply and high interest rates, than on fiscal measures (taxation). The initial results give hopes of economic recovery.

From the Community's viewpoint, while it is desirable that stability of the dollar should continue to be recognized as a priority aim, efforts to achieve this end must lay greater stress on a more stringent fiscal policy, though not at the expense of the social security system.

4.8. Recovery

4.8.1. The Community has high hopes of a recovery in the US economy which will stimulate the economy, boost trade and growth, and curb unemployment on a world scale. The anti-inflation measures taken in the United States and in Europe, though with differing rates of success, may be seen as promising signs. The two partners should act together to underpin recovery.

4.8.2. The Section would therefore like to see a regular, intensive dialogue on economic and monetary matters between those in positions of responsibility in the USA and the Community with a view to achieving fair concessions on both sides.

From this angle, the recent Williamsburg Summit was a disappointment as the Community has not yet succeeded in convincing the USA of this need.

V. SUGGESTIONS FOR PROMOTING UNDERSTANDING BETWEEN THE COMMUNITY AND THE UNITED STATES

5.1. Understanding is contingent on mutual respect. Such an understanding will encourage the two partners to hold talks, rather than taking retaliatory measures, whenever their interests clash.

5.2. Just as Europeans know little about life on the other side of the Atlantic, the general public in the United States does not have much idea of what European unification really entails or of its partner's anxieties. This is serious as misunderstandings escalate into disputes that are difficult for the authorities to defuse.

5.3. Many disputes between the United States and the Community are explained by inadequate briefing on each other's problems or by different approaches to a given situation. Dialogue between the EC Commission and the US administration on policy matters must be substantially stepped up if it is to be effective. Such dialogue should, in the Section's view, be backed by more regular informal meetings to allow the trade groups directly concerned on both sides of the Atlantic (employers', workers' and farmers' organizations) - which ultimately have to bear the brunt of the economic situation - to compare their viewpoints.

5.4. The Community is currently engaged in talks and negotiations with the United States at different levels and within a variety of bodies. Yet in practice only a limited number of people are involved on each side. Public interest must also be engaged. For the purpose of impressing the Community's views on US public opinion (parliamentarians, economic and social groups, the media, students, school children, etc), the Section for External Relations invites the Commission to explore - with the help of media experts - the feasibility of an effective public relations campaign in the United States. To make a durable impact this campaign would have to be spread over several years and comprise a wide range of activities angled primarily at leaders of opinion. It would cost substantially less than the present lack of knowledge and misunderstanding. As a first step, the Community